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November 6, 2009

Mr. Russell G. Golden
Chairman of Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5446

**Re: File Reference No. EITF 09-02
Research and Development Assets Acquired and Contingent Consideration Issued
in an Asset Acquisition**

Dear Mr. Golden,

Johnson & Johnson would like to comment on the proposed accounting standards update to Topic 730 Research and Development referenced above. We understand that the objective of the EITF in addressing this topic is to eliminate the inconsistency of accounting treatment for research and development assets acquired in an asset acquisition versus those acquired in a business combination. However, we do not believe that capitalizing in-process research and development costs acquired in an asset acquisition is appropriate.

The accounting for R&D in an asset acquisition is adequately covered in FAS2, "Accounting for Research and Development Costs", and if re-consideration of this subject is considered necessary, it should be approached by FASB in a comprehensive manner. We believe isolating the accounting for R&D asset acquisitions from all other guidance provided in Topic 730 may lead to further misinterpretation and confusion for users of financial statements.

Comments on the questions that the EITF specifically requested comments on follow:

Question 1: Do you agree that the cost of acquired tangible and intangible research and development assets acquired in an asset acquisition should be capitalized, regardless of whether they have a future alternative use? Why or why not?

Response: *No. We do not agree that the cost of acquired tangible and intangible research and development assets acquired in an asset acquisition should be capitalized, regardless of whether they have a future alternative use. We believe R&D costs do not meet the definition of an asset in accordance with CON6 and therefore we believe it is appropriate to expense such costs according to the guidance in FAS2. Whether the costs are incurred internally or purchased from a third party does not make a difference for recognition purposes.*



Early stage development compounds have a low probability of success, and the economic benefits of such R&D assets depend on regulatory approval. If such items are reflected on the balance sheet, it would significantly increase impairments and would certainly cause confusion for investors. Companies would need to track these assets, continually assess for impairment, and ensure SOX compliance.

We understand the proposal in the current exposure draft would extend to license arrangements. In our industry, license arrangements do not represent a true asset purchase because these represent the “right of use” to develop an unapproved compound, which typically represents a low probability of commercial success. These rights may be used over a certain timeframe and may revert back to the original owner upon conditions such as, failure, expiration of patent or abandonment.

We believe these points overshadow the inconsistency between R&D assets acquired in a business combination and those acquired in an asset acquisition.

Question 2: Do you agree that contingent payment arrangements in an asset acquisition should not be recognized at fair value unless those arrangements are derivatives?

Response: *We believe any contingent consideration in an asset acquisition should be accounted for at the fair value when payments are incurred as a result of certain thresholds being achieved through clinical development. In our industry, license arrangements are established between partners to share risk and reward for the development of unapproved compounds. Typically, the licensee will move the success of the compound closer through the development phase resulting in the licensor earning a payment as a result of the licensee achieving defined contractual terms (i.e., Phase I, Phase II or Phase III studies). We believe that these payments should not be conformed to the method required in a business combination as they are not tied to commercial metrics such as sales thresholds or operating profits.*

Contingent payments also have a low probability of achievement. We believe these payments represent risk and reward sharing between partners in a license arrangement during the development phase of a project. They are essentially payments to move compounds forward in the R&D process and should be recorded when incurred in the same manner as internal costs to move a compound forward. At the date of acquiring an asset through a license arrangement, a liability has not yet been incurred and should not be recorded. Trying to estimate contingent consideration is complex as the agreements typically span 10-15 years.

Question 3: This proposed Update does not provide guidance for determining whether a contingent payment relates to future services or consideration for the asset acquired. Paragraph 805-1-55-25 provides guidance for determining whether payments made to the seller in a business combination after the acquisition date relate to the acquisition of the business or the performance of future services by the seller? Do you believe that additional guidance is necessary for assisting in making this determination in an asset acquisition? If you believe additional guidance is necessary, please provide any factors that you believe should be considered in making this determination.



Response: *No, we do not believe additional guidance is necessary for determining whether a contingent payment relates to future services or consideration for the asset acquired. Payments made in an asset acquisition are typically made as a result of success being achieved. Contractual terms are clearly defined between partners during the development phase of an arrangement. For the most part, these payments are not tied to future services between partners in an acquisition but more aligned to development success.*

Each asset acquisition is unique and management must consider all facts and circumstances in making this determination.

Additionally, we support the effective date and transition for prospective application to transactions in interim and annual periods beginning after December 15, 2009.

Thank you very much for taking our comments into consideration.

Sincerely,

Stephen J. Cosgrove
Vice President, Corporate Controller